

UNITED STATES
OFFICE OF PERSONNEL MANAGEMENT
WASHINGTON, D.C. 20415

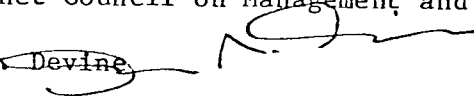
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Office of the Director

January 6, 1983

MEMORANDUM

TO: The Cabinet Council on Management and Administration

FROM: Donald J. Devine 
Director

SUBJECT: Personnel Incentive System Reforms

I. BACKGROUND

"Nobody believes anymore that government delivers," is the conclusion of Peter F. Drucker. In the United States, the Federal personnel system clearly institutionalizes negative incentives so that creative and productive work becomes very difficult. Increases in pay are given to all, regardless of performance. Even decisions to lay-off employees are basically made on seniority, without consideration of how well they perform. Negative incentives likewise exist to work overtime, rather than regular hours, since the Federal Government sets requirements double those in the private sector. Labor relations focuses upon trivial matters, while positive initiatives are discouraged. The result is an incentive system badly in need of reform.

II. RATIONAL INCENTIVES

A. A Performance-Based Incentive System (PBIS).

Longevity, not performance, is the basis upon which the vast majority of government employees advance in pay. A performance appraisal system is now in place which requires periodic assessment of employee performance. Yet, with few exceptions, we are unable to relate the consequences of that appraisal to the employees' pay. Presently, "merit pay" managers are the only group in government which must earn pay raises, while they see their own subordinate employees and equivalently-graded non-managers receiving automatic increases, even with marginal performance. We propose to establish a performance-based incentive system which will entail regulatory changes in four major areas. (1) We will simplify and standardize performance appraisal systems throughout the government to establish a clear linkage between performance and pay. (2) For general schedule employees, we will eliminate the automatic nature of within-grade increases, and link all monetary awards to levels of performance, to assure that our best performers receive the highest compensation. (3) For merit pay managers, we will standardize the merit pay systems, and make them compatible with the new general-schedule system. We also would guarantee full comparability for fully successful managerial performance. (4) Finally, the performance part of the present incentive awards program, the quality-step increase program, and within-grade increases will be integrated to form the incentive pay pool which shall be distributed to the better performers in the general schedule at GS-6 and above.

B. Reduction In Force (RIF) Reform.

Separations in RIFs are now based upon seniority. Performance is given only slight weight, as the last of several elements in the process. Therefore, many outstanding and above fully successful individuals are now separated in a RIF. Since the present rule has a last-hired-first-released impact, it also affects women and minorities disproportionately. The reform would keep the present four factors of tenure, veterans preference, seniority and performance; but switch the last two factors. Performance would then be considered in retention during RIFs, and seniority would weigh within performance. The most productive workers would be more likely to be kept in a RIF, while also giving seniority substantial weight both under the tenure factor, and within performance. Further flexibility would be given to set competitive areas in a RIF, "bump and retreat" would be limited, reclassification of duties and reassignments would be removed from RIF procedures, and the specific notice period would be liberalized from five to ten days.

C. Overtime Pay Equity.

The Fair Labor Standards Act (FLSA) requires Federal employees to be paid overtime at an amount which is the greater of either the Department of Labor calculation method or that of OPM under Title 5, and that OPM follow DoL exemption methods. OPM originally tied DoL-level exemptions to the general schedule. Yet, over the years, Federal pay for these grades has grown, while the DoL rates have not. Relative to the private sector, the Federal government pays more people more overtime benefits. This proposal, in response to a Department of Defense request, would set a new linking procedure to make Federal Government practices closer to, but still more generous than, private sector ones (DoL minimum=\$155 and exclusion "upset"=\$250, vs. OPM \$257 and \$318). This will remove an existing incentive to work overtime and will create an incentive to work regular hours. Exceptions will be continued for air traffic controllers, law enforcement officers and firefighters.

D. Management Rights Clarification and Scope of Bargaining/Consultation.

At present, management rights are only broadly defined in law, so that labor unions are constantly testing how far they can stretch negotiability issues. The proper reviewing authority--the Federal Labor Relations Authority--has attempted to define negotiability on a case-by-case basis, using the model of the NLRB. Recent decisions, however, have indicated the FLRA might be amenable to OPM assuming a forward, policy role. The advantages to clearly specifying what is negotiable and what is not negotiable are considerable, since they will ensure the protection of essential management prerogatives. At the present, labor raises many trivial issues, simply out of frustration with the fact they cannot bargain over pay and benefits. Clearly defined negotiability would orient labor relations to positive initiatives, such as occupational health and safety and "quality circles" if agency management finds them appropriate.

III. RECOMMENDATION

Each of these issues has been widely discussed and/or approved within various forums in the Administration (see attached news clips). Each has a broad consensus. Therefore OPM recommends immediate approval for all four proposals to be published as Proposed Rules for comment. Discussion and proposals for change can continue during the rules comment period, and the Final Rules can be referred back to the Cabinet Council.

EXECUTIVE SUMMARYIntroduction

An FRC system evaluation has been undertaken in accord with a White House and OMB decision to evaluate the system after it had operated under Executive Order 12314 for one year. The evaluation was to determine whether the FRCs are serving a useful purpose, whether they should be continued or terminated, and if continued, what changes should be made. This report 1) briefly reviews the history and current structure of the FRC system and 2) presents the study team's findings and conclusions.

Conclusions

The study team concluded that:

- current FRC goals and objectives reflect what the Administration wants and expects from the system.
- support for the FRC system is weak, giving participants the impression that the system is not taken seriously.
- lack of White House, OMB, and agency support is the greatest influence on the system.
- FRCs are more effective in self-generated assignments than in Washington-initiated assignments.
- rewards and incentives for participating in the system are almost non-existent.
- there is little, if any, evaluation and feedback for the persons participating in the FRC system.

The FRC system is not achieving its potential and is unlikely to in the absence of greater support; and such support does not appear likely.

Options

In view of this, the study team examined the pros and cons for five options:

1. Continue the current system as is.
2. Retain and strengthen the current system.
3. Continue the system on an interim basis pending a full field structure review and decisions.
4. Replace the system with a convenor/spokesman coordinator.
5. Abolish the system--with no replacement.

Recommendation

The study team and its Advisory Group recommend Option 5, i.e., abolishing the FRC system. Greater White House and agency involvement in the system is not a realistic expectation, and agencies still have the ability to communicate and coordinate in the field through their own mechanisms when necessary.

Next Steps

The steps needed to implement the recommendation include: a memorandum to White House officials requesting concurrence in the recommendation, rescission of E.O. 12314, notification of all Washington and field participants, and publication in the Federal Register.